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(21) (54)

OUTGOING TELEGRAM Department of State

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Origin

ACTION: AmEmbassy BONN
AmEmbassy LONDON
AmEmbassy PARIS

Info:

INFO: Amembassy BUENOS AIRES - PASS SECSTATE

STATE 140190

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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY Rami DATE FEB 14/85 15 FH '07
RDS☐or XDS☐EXT. DATE
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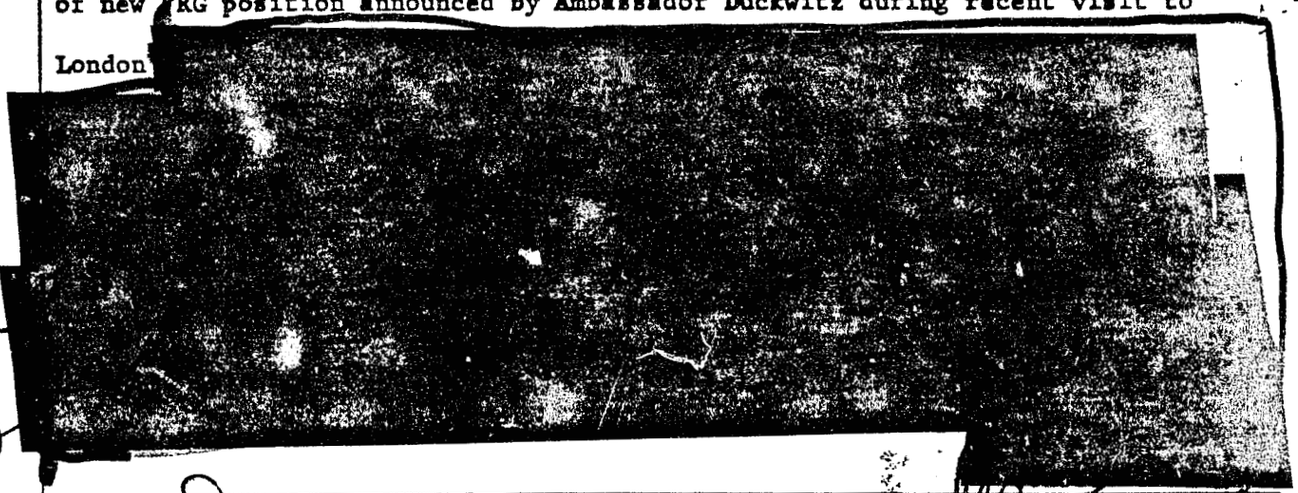
Thomson Visit Feb. 16: NO FORN - SUBJECT TO REVISION UPON REVIEW

1. Thomson, accompanied by Dean, Figgures, Barnes, Stevens of UK Embassy and others, met first with McCloy, E. Rostow, Bowie, Springsteen and later with foregoing State officers plus Deming, McNaughton, Bator and others late morning and afternoon Feb. 16. The two sessions constituted tentative exploration of positions only.

2. Thomson stressed throughout discussion great urgency of dealing with financial problems arising from British forces in Germany, particularly in light of new FRG position announced by Ambassador Duckwitz during recent visit to London



Drafted by: SCM:JSBrimi:EUR/RPM:MRGannett idp:gw. 2/17/67 | Tel. Ext. 3434 | Telegraphic transmission and classification approved by: EUR-George S. Springsteen

Clearances:
RPM - Mr. McAuliffe
S/S - Mr. Bruce
Mr. Rostow

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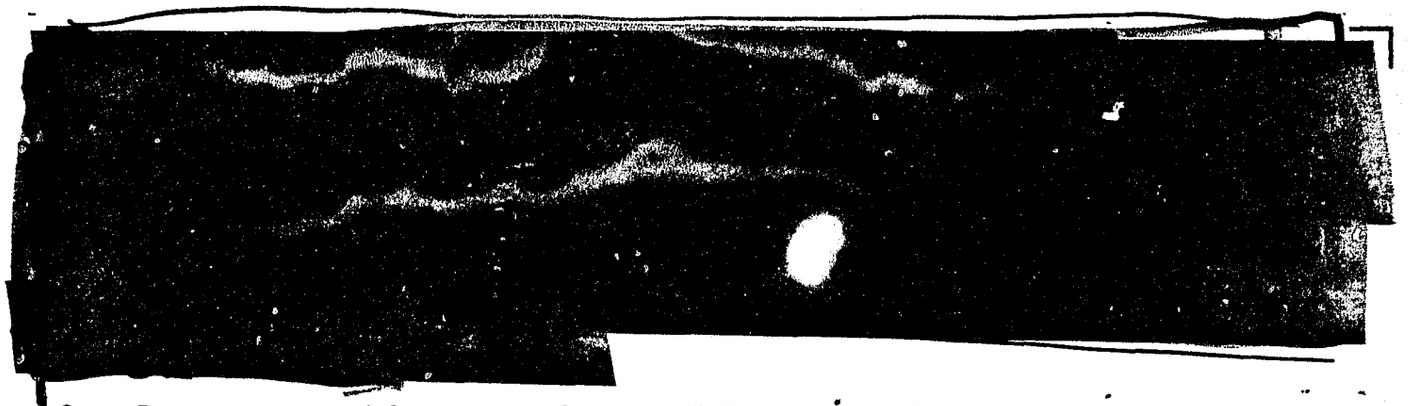
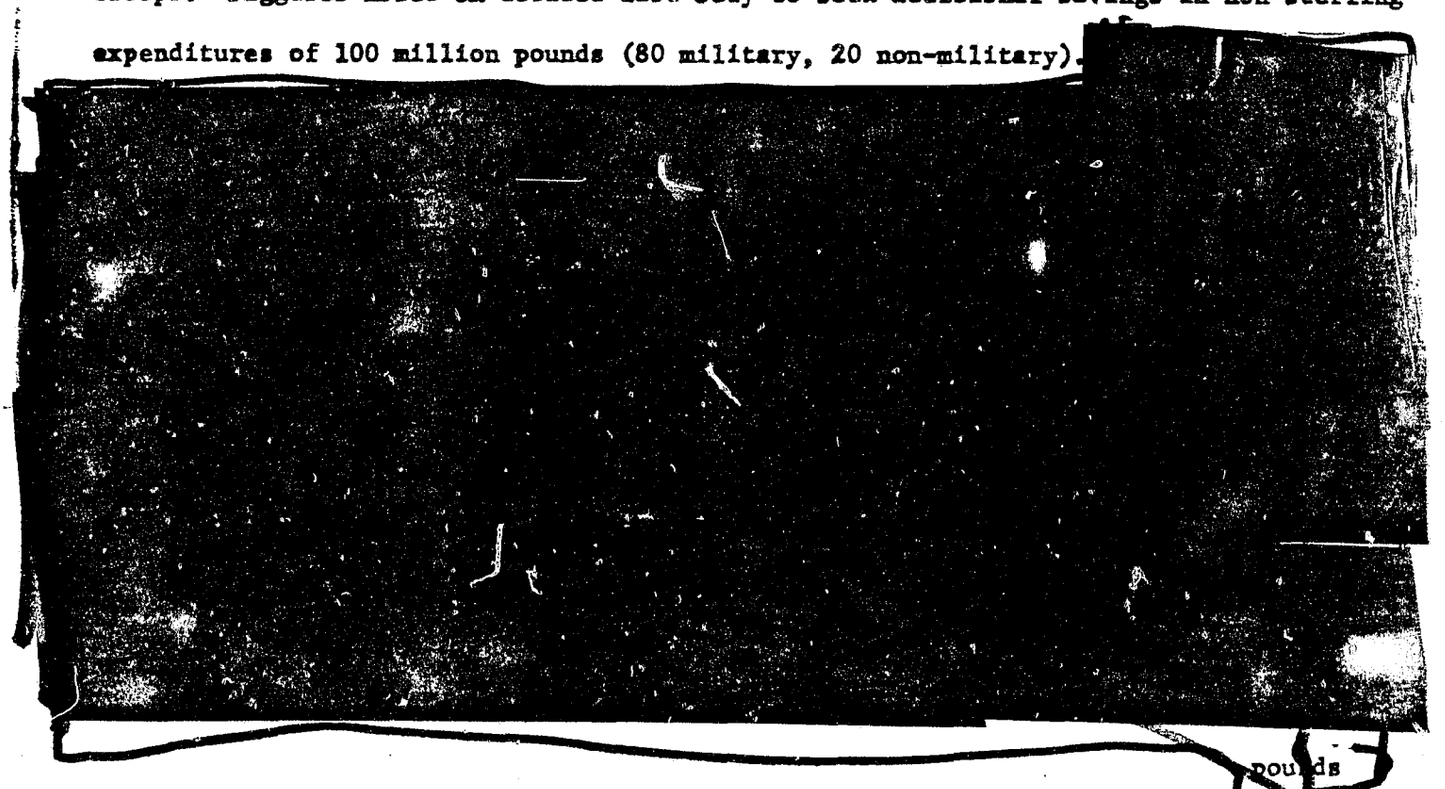


3. Stevens gave quick summary of over-all UK balance of payments situation. Said that while current reserve position stronger than anticipated, UK faces IMF payments and other heavy debt payment this year. Also, pressure points on Sterling still exist, which could cause difficulty if confidence is weakened as result UK's not following through on announced decision either to recover exchange costs of BAOR or pull back troops. Figgures noted UK decided last July to seek additional savings in non-sterling expenditures of 100 million pounds (80 military, 20 non-military).



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4. Rostow stressed importance of no longer approaching financial problem in former manner of what percentage offset ~~XXX~~ FRG could make. Proper approach should be: (a) to determine what forces are required in terms of security considerations alone; (b) to persuade FRG both to relax its present position of no new payments for military purchases and to enter into arms production arrangements with UK (such as Phantom-Spey or Jaguar proposals), and (c) to neutralize through other financial arrangements remaining gap resulting from US/UK defense expenditures in FRG.

5. McCloy asked whether UK stood by strategy embodied in agreed Trilateral Minute of November 10. Thomson said new UK defense review published Feb. 16 makes no change in strategic doctrine. He argued that primary issue i

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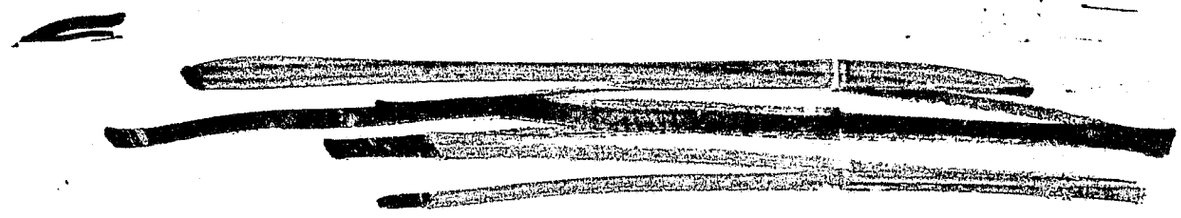

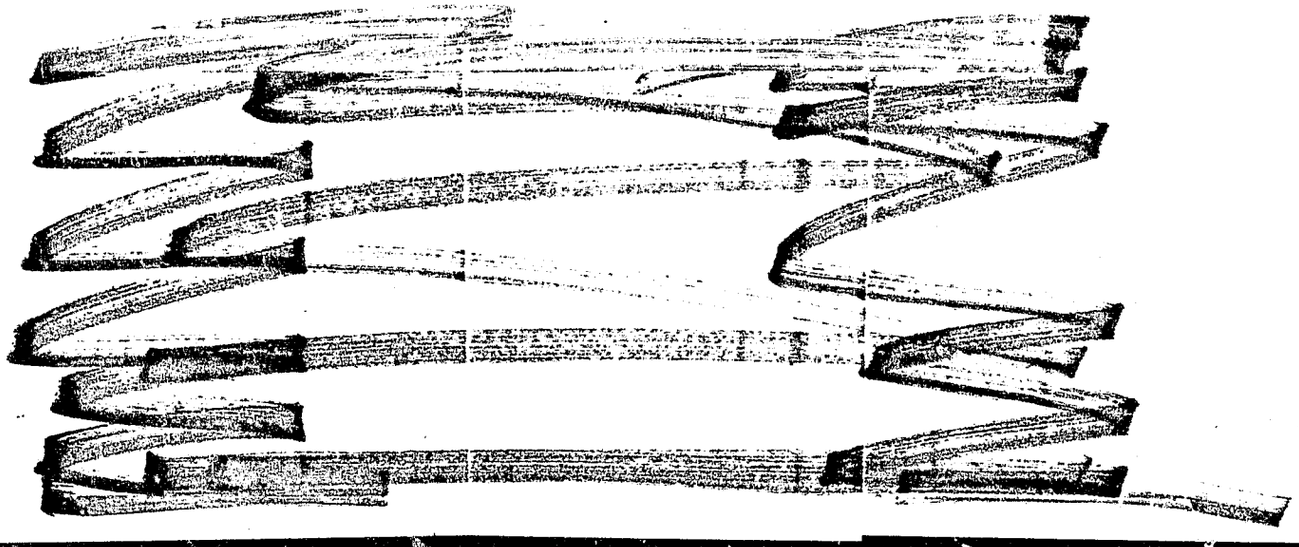

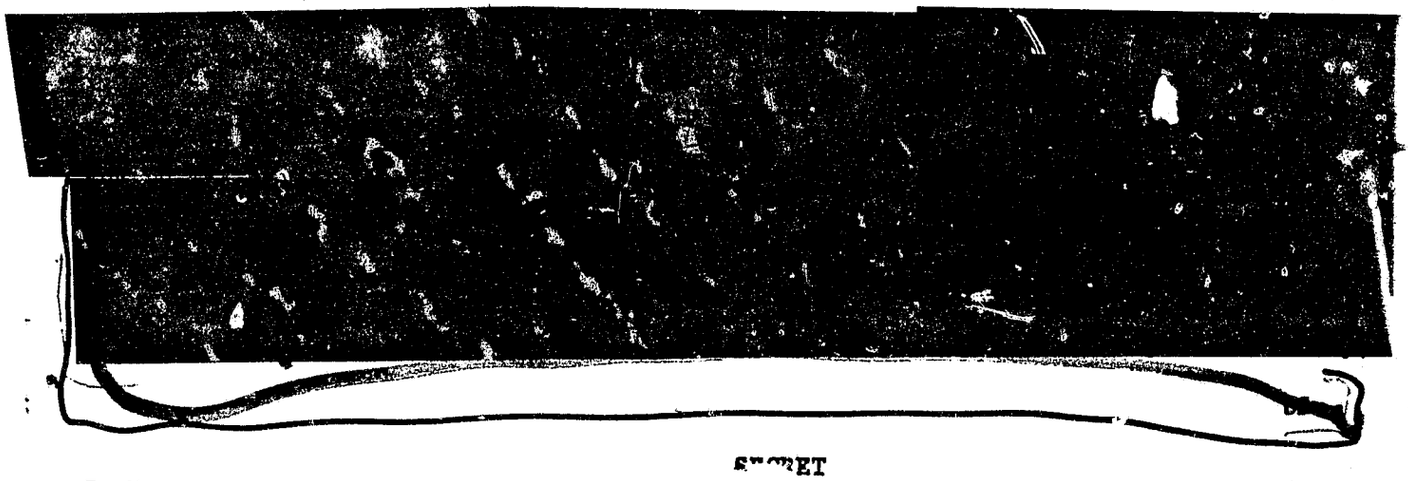

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Rostow noted reference to subject in President's October 7 speech; matter deserves consideration but in context of what changes in force deployments may be called for by new technology and by rotation concept. McCloy referred to recent press rumors of possible Soviet withdrawals from Central Europe, but thought US/UK plans should not hang on what he considered unlikely pressures on Soviet budget.

11. As regards when Trilaterals resume, it was left despite urgency by Thomson that proposal for February 27 in London be made firm, that date would remain open and that US would indicate after weekend whether it could meet that date. (Contrary to press reports, USG has not agreed to Trilateral Meeting in month of February.).

GP 3. END.

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